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# Executive Summary

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Real gross domestic product (GDP), an inflation-adjusted measure of the total output of goods and services produced in the United States, was estimated to have grown by 2.3 percent in the second quarter. This growth, while slow by recent standards, is nevertheless close to what most economists believe to be the long-term average growth potential for the economy. Total real consumption expenditures, which account for about two-thirds of GDP, increased by 3.0 percent in the quarter. Total investment comprises about one-fifth of GDP, and was up just 1.9 percent over a year earlier.

Kentucky's personal income is estimated to be \$97.9 billion in the second quarter of FY01, an increase of 4.1 percent from a year ago. U.S. personal income was up 4.2 percent on an annualized basis. Inflation, as measured by the U.S. Consumer Price Index, rose 3.2 percent in the second quarter. Employment growth in Kentucky is estimated to have increased by 31,700 jobs from a year ago, with a growth rate of 1.7 percent. Wages and salaries, a little over one-half of personal income, increased by 5.4 percent.

General Fund revenues for the second quarter of FY01 exhibited weak growth over the second quarter of FY00. Receipts in the second quarter totaled \$1,678.6 million compared to \$1,652.4 million received in the second quarter of FY00. The resulting growth rate was 1.6 percent. As usual, variations in the quarterly receipts are affected by differences in the timing of payments into revenue accounts. In the second quarter, corporation income tax receipts were depressed due to a change in the timing of refund payments.

Total sales and use tax receipts for the quarter were up 4.7 percent. Individual income taxes posted a very slow growth rate of 0.4 percent, compared to a growth rate of 6.5 percent during the

second quarter of last year. Corporation income tax receipts fell 27.5 percent, affected by the change in refund timing and lower declaration payments. The coal severance tax posted a decline of 7.1 percent in the second quarter of FY01. Property tax receipts were off slightly by 1.1 percent, due to a change in timing, and the Lottery was up 5.3 percent. The "All Other" category grew sharply in the second quarter, up 21.3 percent due to growth in inheritance taxes, investment income, and natural gas severance taxes.

The Road Fund reported growth of 1.8 percent in the second quarter of FY01, with revenues totaling \$247.7 million. Motor fuels tax receipts rose 7.3 percent, compared to a year ago when extraordinary refunds depressed revenues. The motor vehicle usage tax declined by 0.3 percent during the FY01 second quarter, and the weight distance tax rose 1.2 percent. "All Other" Road Fund accounts decreased by 6.8 percent.

The interim revenue estimate for the next three fiscal quarters is for General Fund revenues to grow by 4.0 percent over the remainder of FY01, and expand by 3.2 percent in the first quarter of FY02. Therefore, General Fund receipts should reach \$6,711.0 million in FY01, and \$1,598.3 million in the first quarter of FY02. For the next two quarters, sales and use tax revenues are forecasted to grow by 4.1 percent, and individual income taxes are projected to expand by 4.1 percent. Corporation income taxes are expected to rise by 15.1 percent. The coal severance tax is forecasted to fall by 3.9 percent. Property taxes should rise 6.6 percent, the lottery is expected to fall by 7.0 percent, and "Other" accounts should grow 1.2 percent.

The interim outlook for the Road Fund is for revenues to fall in the final two quarters of FY01, with a decrease of 3.2 percent and total revenues of \$559.9 million. This should bring total FY01 Road

Fund revenues to \$1,075.6 million. Growth for the upcoming two quarters will be adversely affected by lingering effects from House Bill 911, which created a timing difference in the collection of special fuels taxes that resulted in a one-time loss to the Road Fund. Motor fuels taxes are expected to decline by 2.2 percent in the final two quarters of

FY01. The motor vehicle usage and usage rental taxes are projected to fall by 2.3 percent, due partly to the recent *McGaren* court case which expanded trade-in credits for used cars. License and privilege taxes are expected to decline 5.5 percent, and the weight distance tax is expected to grow 3.6 percent.

*\*The state's fiscal year, which begins on July 1, will be used as the time frame throughout this report, i.e., the second quarter of FY2001 covers the October-December 2000 period.*

# The Economy

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## NATIONAL ECONOMY\*\*

### Second Quarter, FY01

Real gross domestic product (GDP) is an inflation-adjusted measure of the total output of goods and services produced in the United States. Real GDP is estimated to have increased by 2.3 percent in the second quarter. Even though that is about what most economists consider the long-term average growth, it is a marked drop from the 8.3 percent growth observed a year ago in the same quarter. That was driven mostly by efforts to make all computer-related devices Y2K compliant. During the last two quarters of FY00 the economy still grew strongly by 4.8 and 5.6 percent. The beginning of FY01 was marked by a return to the more sedate pace reminiscent of the old economy. In the July-September quarter real GDP increased by 2.2 percent followed by 2.3 percent in the October-December 2000 quarter.

The consumer has been the driver for both the national and Kentucky economies. The slowdown in real GDP can be directly linked to a more tepid consumption pattern. Consumption expenditures account for about two-thirds of real GDP. Total real consumption increased by just 3.0 percent in the second quarter, compared to 4.5 percent in the preceding quarter and a robust 5.9 percent a year ago. The slowdown, emanating from a decline in consumer confidence, was felt most strongly in the consumption of durable goods which declined by 5.1 percent. Within this sector the so-called "new economy" goods were still much in demand and grew at about the same rate as last year when the economy was showing strong growth. For example, the consumption of computers was up 31.9 percent and software up 22.1 percent. The impact was felt mostly in the motor vehicles sector where real consumer spending declined by 15.8 percent.

In contrast to the decline in the consumption of durables, the consumption of nondurable goods was up 2.1 percent. However, this was still a marked slowdown compared to the 4.7 percent growth in the previous quarter and 7.4 percent a year ago. Services constitute a little over one-half of all consumption and about 35 percent of total GDP. The consumption of services increased by a strong 5.2 percent in the second quarter. Much of the increase resulted from the higher cost of energy, classified under household operation, as well as financial services.

Total investment comprises close to a fifth of real GDP and is usually sensitive to both interest rates and future expansion opportunities. Overall, the investment component of GDP increased by just 1.9 percent, a noticeable change from the growth rate of 7.7 percent in the previous quarter and 9.5 percent a year ago. This clearly implies that businesses share some of the consumers' malaise and are hesitant to expand. Even investment in computer equipment and software softened during the second quarter. Government spending constitutes 17 percent of GDP and was up 2.7 percent. Much of the growth came from the Federal government and was related to the publication of the Census data.

The Governor's Office for Economic Analysis carefully monitors industrial production because it is a measure of the output of heavy industries like mining and manufacturing. These industries continue to play a vital role in Kentucky's economy. Industrial production is a raw measure of output, comprised of only the final products. Overall the industrial production index grew by just 1.1 percent during the second quarter. The manufacturing portion of the index grew by 0.5 percent, while durables declined by 1.1 percent. To put this in

perspective, just a year ago industrial production was up 5.7 percent and durable goods 7.9 percent. Factory capacity utilization dipped just below 80 percent for the first time since FY93.

Personal income, which is a measure of spending power, was \$8,434.5 billion in the second quarter, for an annualized increase of 4.2 percent over the previous quarter. Real disposable income was up 0.9 percent, and continues to be outstripped by real consumption, up 3.0 percent. During both quarters of FY01 the savings rate has been negative, due partly to a change in definition about a year ago.

In spite of the slowdown in consumption and production, the economy continues to be at a "full" employment level, and inflation is in check though both oil and natural gas prices have skyrocketed. This is the bright spot in all the gloom associated with the seeming return to "old economy" growth rates in terms of GDP and production. Since 1996, when the unemployment rate fell below 5.5 percent, the labor market has been considered tight and a possible cause for inflation. Since then, unemployment and inflation have fallen steadily without causing an imbalance. The key has been labor productivity. In the second quarter the unemployment rate averaged 4.0 percent and CPI inflation was 3.2 percent. If the more volatile food and energy sectors are excluded, inflation was just 2.9 percent.

Total nonagricultural employment averaged 131.9 million jobs in FY01:2, for a growth of 0.7 percent. Among all the major sectors of the economy, employment in construction was the strongest with an increase of 3.9 percent. Even though housing starts slowed down in response to consumer confidence more than mortgage rates, this sector grew as highway and other heavy construction areas continued to grow. The service sector also grew strongly with an increase of 2.2 percent, with health and business services contributing to much of the growth. However, retail trade and manufacturing posted

declines. The drop in manufacturing was expected, but the 0.2 percent decline in retail employment caught most analysts by surprise.

## STATE ECONOMY

Personal income is the broadest measure of a state's economic performance. Kentucky's personal income is estimated to be \$97.9 billion in the second quarter of FY01, an increase of 4.1 percent from a year ago. U.S. personal income grew by 5.8 percent during the same period. Wages and salaries constitute a little over half of personal income. Income derived from wages and salaries is estimated to have grown by 5.4 percent in FY01:2, compared to 6.5 percent nationally. Kentucky's lower growth can be ascribed to some extent to job losses in the traditionally high-wage manufacturing sector. Other areas of personal income, namely dividends, interests, and rent as well as proprietors' income also grew more slowly in Kentucky than in the national economy.

Employment data is commonly used to gauge the strength of the state's economy, primarily because of its timely availability and its impact on consumer spending and confidence. Nonagricultural employment in Kentucky is estimated to have increased by 31,700 jobs from a year ago, resulting in a growth of 1.7 percent. This is at about par with the national growth of 1.6 percent.

A little over one-fourth of Kentucky's nonagricultural jobs are in the service sector. This sector also had the highest numerical as well as percentage increase with a gain 18,100 jobs for an increase of 3.9 percent. But the growth came not so much from the higher paying area of health services (up 1.7 percent), but from business services (up 6.3 percent) and social services (up 8.0 percent). Even though the business services category does include computer programming and data services, in

Kentucky this category is dominated by personnel supply services, and computer maintenance services.

Growth in the transportation, communication, and public utilities (TCPU) sector was up 2.1 percent. Fortunately, unlike the national average, TCPU in Kentucky is dominated by the air transportation industry and employment in this category increased by a robust 3.6 percent. Jobs in this sector are currently less cyclical and provide higher wages.

In the past, a decline in manufacturing employment was primarily from the nondurable goods sector. However, during the second quarter the durable goods sector lost 1.8 percent of its

employment base. The hardest hit was electronic equipment (down 10.1 percent). This category is driven largely by household appliances in Kentucky and dropped as a consequence of job losses at GE Appliances. The transportation equipment category also posted a decline mostly from auto parts manufacturers who faced a decline in demand from out-of-state automobile producers.

Nationally, both mining and construction grew during the second quarter, but both these sectors declined in Kentucky. Mining in Kentucky is dominated by coal and the demand for coal is at best stagnant. However, higher gasoline and natural gas prices have spurred national employment in this area. Construction employment in Kentucky was dampened by both adverse weather conditions and from the relatively low increase in personal income.

*\*\*Data for second quarter FY01 U.S. economic activity are derived from estimates made by DRI/McGraw Hill Control Scenario, January 2001.*

**Table 1**  
**National Economic Indicators**  
**Second Quarter, FY2001**

	<b>FY00:2</b>	<b>FY00:1</b>	<b>FY01:2</b>	<b>SAAR* FY00:2 to FY01:2</b>	<b>FY00:2 to FY01:2 Percent Change</b>
Real GDP (billion 1996 \$)	9,084.1	9,369.5	9,422.0	2.3	3.7
Personal Income (billion \$)	7,972.3	8,349.0	8,434.5	4.2	5.8
Real Disposable Income (billion 1992 \$)	6,412.2	6,543.7	6,558.4	0.9	2.3
Consumer Price Index (annual percent change)	2.9	3.1	3.2	-	-
Industrial Production (annual percent change)	5.7	3.7	1.1	-	-
Civilian Labor Force (millions)	139.9	140.6	141.2	1.8	1.0
Total Nonagricultural Employment (millions)	129.8	131.6	131.9	0.7	1.6
Manufacturing Employment (millions)	18.5	18.5	18.4	-2.0	-0.6
Unemployment Rate (percent)	4.1	4.0	4.0	-	-

Sources: Standard & Poor's DRI, and U.S. Dept. of Commerce, Bureau of Economic Analysis.

\* Seasonally adjusted annual percent growth rate.

**Table 2**  
**Selected Kentucky Economic Indicators**  
**Seasonally Adjusted Data**  
**(Thousands)**

	<b>FY00:2</b>	<b>FY01:2</b>	<b>Change</b>	<b>Percent Change</b>
Total Personal Income (\$ millions)	94,086	97,962	3,876	4.1
Wage & Salary Income (\$ millions)	52,803	55,637	2,834	5.4
Total Nonagricultural Employment	1,824.3	1,856.0	31.7	1.7
Mining	21.3	20.6	-0.7	-3.3
Construction	90.1	89.7	-0.4	-0.5
Manufacturing	322.7	316.4	-6.3	-1.9
Durable	194.9	191.4	-3.5	-1.8
Nondurable	127.7	125.0	-2.7	-2.1
Transportation, Communication, & Public Utilities	107.5	109.8	2.3	2.1
Trade	435.9	444.2	8.3	1.9
Finance, Insurance, and Real Estate	71.4	72.0	0.6	0.8
Services	469.3	487.4	18.1	3.9
Government	306.2	315.9	9.7	3.2

**Note:** Numbers may not add up due to rounding.

**Sources:** U.S. Department of Commerce, Bureau of Economic Analysis.  
GOEA's Macromodel of Kentucky Forecast, January 2001.  
Kentucky Cabinet for Human Resources.



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# Revenue Receipts

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## SECOND QUARTER, FY2001

### General Fund

The second quarter of FY01 exhibited weak growth over the second quarter of FY00. Receipts in the second quarter totaled \$1,678.6 million compared to \$1,652.4 million received in the second quarter of FY00. The resulting growth rate was 1.6 percent. Collections in the major revenue categories are shown in summary form in Table 3. Detailed information on these and other accounts is available in the Appendix.

**Table 3**  
**Summary General Fund Receipts**  
**Second Quarter, FY2001**  
(Millions of Dollars)

<u>Type Tax</u>	<u>FY01</u>	<u>FY00</u>	<u>Percent Change</u>
Sales and Use	568.0	542.3	4.7
Individual Income	642.6	640.0	0.4
Corporation Income	57.9	79.9	-27.5
Coal Severance	34.1	36.8	-7.1
Property	206.9	209.1	-1.1
Lottery	39.5	37.5	5.3
All Other	129.6	106.8	21.3
<b>TOTAL</b>	<b>1,678.6</b>	<b>1,652.4</b>	<b>1.6</b>

As usual, variations in the quarterly receipts are affected by differences in the timing of payments into revenue accounts. This was especially true for corporate income tax, where timing differences resulted in a significant second quarter decrease after a significant increase in the first quarter of the fiscal year.

Total sales and use tax receipts for the quarter were \$568.0 million, compared to \$542.3 million in the second quarter of FY00. The result is a lower than expected growth rate of 4.7 percent. The growth rate for sales and use tax receipts continues to be an area of concern.

Individual income tax posted receipts of \$642.6 million, compared to last year's second-quarter receipts of \$640.0 million. The resulting growth rate was an unexpectedly small 0.4 percent and compares to a growth rate of 6.5 percent for the second quarter of last year.

Corporation income tax receipts decreased significantly in the second quarter of FY01 based on the timing of refund payments. Revenues of \$57.9 million were 27.5 percent lower than year-earlier figures of \$79.9 million.

Property tax receipts were slightly lower than the second quarter of a year ago, posting a 1.1 percent decrease. FY01 second-quarter receipts of \$206.9 million compare with \$209.1 million from the second quarter of FY00.

Coal severance tax continued to decrease in the second quarter, with revenues down by 7.1 percent. Collections of \$34.1 million compare to the FY00 second-quarter total of \$36.8 million.

Lottery receipts were \$39.5 million, up 5.3 percent from last year's second-quarter total of \$37.5 million.

The "All Other" category, which represents the remaining accounts of the General Fund, increased significantly with 21.3 percent growth in the second quarter. Second-quarter receipts for FY01 were \$129.6 million and compare to \$106.8 million in FY00.

### Road Fund

The Road Fund reported a slight increase in the second quarter of FY01, up 1.8 percent from the second quarter of FY00. Receipts totaled \$247.7

million and compare to \$243.4 million from the second quarter of last year. Summary data are contained in Table 4 and detailed data are shown in the Appendix.

Motor fuels tax receipts increased at a rate of 7.3 percent during the second quarter. Receipts were \$101.0 million and compare to \$94.1 million collected during the second quarter of last year.

Motor vehicle usage tax decreased slightly in the second quarter, with receipts down by 0.3 percent. Receipts during the second quarter of FY01 totaled \$92.1 million and compare to \$92.3 million collected during the same period last year.

Weight distance tax receipts of \$18.8 million represent a 1.2 percent increase over receipts of \$18.6 million during the second quarter of FY00.

The remainder of the accounts in the Road Fund combined for a decrease of 6.8 percent from a year earlier. In the "All Other" category revenues of \$35.8 million were down from \$38.4 million in the second quarter of FY00.

**Table 4**  
**Summary Quarterly Report - Road Fund**  
**Second Quarter, FY2001**

<u>Type Tax</u>	<u>FY01</u>	<u>FY00</u>	<u>Percent Change</u>
Motor Fuels	101.0	94.1	7.3
Motor Vehicle Usage	92.1	92.3	-0.3
Weight Distance	18.8	18.6	1.2
All Other	35.8	38.4	-6.8
<b>TOTAL</b>	<b>247.7</b>	<b>243.4</b>	<b>1.8</b>

# Revenue Outlook

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## REVENUE OUTLOOK: Interim Forecast

The interim estimates of the General Fund and Road Fund do not represent a revision of the official revenue estimates of the Consensus Forecasting Group. The interim estimates are prepared independently by the Governor's Office for Economic Analysis in consultation with the Transportation and Revenue Cabinets. In compliance with the provisions of KRS 48.400 and KRS 11.068, the estimates for the first three quarters of FY01 are presented.

### General Fund

Projected General Fund revenues for the next three quarters are shown in Table 5. General Fund revenues were \$3,226.8 million in the first half of FY01, yielding a growth rate of 3.2 percent over the same period one year ago. Anticipated revenues for the second half of FY01 total \$3,484.2 million, corresponding to a growth rate of 4.0 percent over second half of fiscal year 2000. Our overall retardation of growth has direct links to a sluggish forecast for the sales and use tax, with the reasons for which outlined below.

Total **sales and use tax receipts** for the first two quarters of FY01 were \$1,125.4 million, with growth year-to-date at just 3.3 percent. The projection for growth over the second half of FY01 calls for \$1,126.0, or 4.1 percent growth. Imbedded in the projected aggregate growth rate of 4.1 percent are several disparate factors. First, we anticipate economic baseline growth of 2.0 percent, which is a reflection of our viewpoint that the Kentucky economy has softened. Second, we anticipate additional tax receipts from the broadening of the sales tax base to include switched access fees, which will add a projected \$20.0 million over the last half FY01. Third, we anticipate an additional \$39.6 million in sales tax collections from the addition of

interstate toll calls into the sales tax base, which became effective January 1, 2001. Finally, we have built in a loss in sales tax revenues due to the Murphy Camera decision handed down by the Kentucky Supreme Court. The decision results in a de facto retrenchment of our sales tax base, as our traditional exemptions for manufacturing plants and machinery have been broadened somewhat by the ruling of the Court. The aggregate expected growth after combining these individual elements is 4.1 percent growth in the second half of FY01, bringing the FY01 total growth to 3.7 percent.

The interim forecast for the **individual income tax** calls for modest growth of 4.1 percent for the remainder of FY01, amounting to collections of \$1,490.7 million. The individual income tax grew at a moderate 4.2 percent in the first half of FY01, with somewhat slower growth in the second quarter compared to the July-September quarter. Growth in our income tax forecast has slowed slightly, partly driven by the slower projections for employment growth, which, in turn, lowered the growth in withholding collections. Growth in declaration payments, another component of individual income tax revenues, is also expected to be slower. Two major components of declaration payments are capital gains income and profits. Both of these income sources have been lethargic in recent months. Stock market corrections have dampened our outlook for capital gains, and earnings shortfalls have made the profit component of declaration payments retract.

The outlook for the **corporation income tax** projects growth of 15.1 percent for the second half of FY01, representing collections of \$179.6 million. These anticipated collections would bring the FY01 total up to \$324.7 million, or 6.0 percent growth over FY00. The somewhat conspicuous growth of 15.1 percent in the second half of FY01

is a result of the refund component of the corporation income tax receipts; the growth does not imply that corporation income tax can be relied upon as a source of significant revenue growth on an ongoing basis. The April-June quarter of FY00 witnessed a flurry of corporation income tax refunds. We do not anticipate such a high level of refunds in the same quarter this year, so the combination of the lower base in FY00 and higher projections in FY01 have coupled to inflate the growth rate for the second half of FY01. A disaggregated view of the forecast for corporation income tax reveals modest growth in June declaration payments, with levels of “payment with returns” on par with recent trends.

The **coal severance tax** continued its free-fall with a 6.0 percent decline in FY00. The coal severance tax has persistently declined in absolute dollar amounts as well as its share of total state revenues. A further deterioration occurred in the first half of FY01, with receipts of \$68.9 million in the first half of FY01 representing a decline of 6.9 percent over the same period in FY00. Collections over the second half of FY01 are expected to tally to \$68.4 million, a decline of 3.9 percent. FY01 is expected to close with total coal severance receipts of \$137.3 million (a 5.4 percent decrease from FY00 levels).

**Property tax** receipts totaled \$244.4 million in the first six months of FY01, with growth of 1.7 percent. The sluggish nominal growth rate was due to the timing of property tax payments vis-à-vis previous fiscal years. Upon consultation with the Revenue Cabinet, we expect slightly higher payments in the second half of the year, as the accelerated property tax payments in the first half of FY00 were not precisely matched in FY01. Total collections for FY01 should tally approximately \$401.1 million, a pace very consistent with our previous consensus estimate.

**Lottery** revenues grew 4.2 percent in the first half of FY01. Part of this bounty is attributable to some one-time surpluses in the lottery at the end of FY00. These unanticipated revenues were distributed to the General Fund in two discrete payments,

one in June and the second in July, 2000. These payments have the dual effect of inflating the year-to-date growth due to the July payment and lower the growth rate for the second half of FY01 (since the one-time money last June is not anticipated this year). Our expectations for the entire 2001 fiscal year call for a slight decline in lottery revenues compared to FY00, with the growth in the first half of the year a reflection of the timing of the transfers rather than an indication of increased lottery participation. The windfall gains at the end of the previous fiscal year were attributable to several conspicuous Powerball jackpots earlier in the year which are not included in outlook for FY01.

The prolific **“Other” revenue** category contains estimates for several of the smaller revenue sources not otherwise classified. Although these taxes are aggregated for the purposes of display, they are estimated individually with models of varying analytical rigor. We anticipate modest growth of a combined 1.2 percent for the second half of FY01, following robust growth of 5.7 percent over the first half of the fiscal year. Some of the larger items include investment income, inheritance taxes, cigarette and liquor excise taxes, and the corporation license tax. We have enjoyed better-than-expected growth in several of these taxes, most notably the corporation license tax and the inheritance and state estate tax. The natural gas severance tax has also exceeded expectations, largely due to higher natural gas demand and prices. Investment income has also exceeded expectations, as the interim estimate for FY01 has been raised slightly from the consensus estimates.

## Road Fund

Road Fund revenues have slumped during the first half of FY01 with collections totaling \$515.7 million, or 0.8 percent growth over the same period in FY00. Collections are expected to continue to lag in the second half of the fiscal year. We anticipate a decline of 3.2 percent during the next two fiscal quarters, bringing the entire fiscal year expected collections to \$1,075.6 million, a drop of

1.4 percent from FY00. The most precipitous reversal of fortune is in the motor vehicle usage category, where year-to-date receipts have fallen 4.8 percent short of their FY00 levels. Growth in motor fuels taxes will be adversely affected by lingering effects of House Bill 911, which created a one-time loss to the Road Fund. The sources of Road Fund receipts listed in Table 6 are estimated by the Governor's Office for Economic Analysis in consultation with officials at the Kentucky Transportation Cabinet.

**Motor fuels normal, heavy vehicle fuel surtax, and motor fuels normal use tax** receipts are expected to fall 2.2 percent during the remainder of FY01 for reasons listed above. Economic growth in motor fuels is anticipated to be approximately 1.9 percent, with lower growth in gasoline taxes but robust gains in diesel fuel receipts. This growth level is consistent with historical growth, and certainly in-line with our early forecasts for these taxes. Our diesel fuel and surtax receipts have continued to outpace growth in gasoline taxes, adding stability to the flow of motor fuel tax receipts.

**Motor vehicle usage tax** collections have slowed appreciable from the red-hot 9.0 percent rate of growth during FY00. Fourth quarter receipts for FY00 moderated to a more modest 3.4 percent, but the brakes have locked into a full skid with a 4.8 percent decline in the first half of FY01. The outlook is for continued sluggishness in this important revenue source, with a further decline of 3.2 percent for the remainder of FY01. The fiscal year is expected to close out with \$345.1 million in

motor vehicle usage tax receipts, a decline of 4.0 percent. Explanations abound for the fall-off in motor vehicle usage taxes. Our primary focus has been the effect of a slowing state economy, record high household debt levels, and sagging consumer confidence. Second, our estimates for FY01 were **reduced by \$3.5 million as a result of the *McGaren v. Commonwealth* refunds.** The Kentucky courts held that the Kentucky Revenue Cabinet's previous practice of granting a trade-in credit for in-state used car transactions (while assessing the motor vehicle usage on the full gross value for used cars out-of-state) was unconstitutional. We have also subtracted \$10.0 million from the FY02 estimate to account for the ongoing revenue impact as well as retroactive refunds.

To estimate the growth of all other components of the Road Fund, Transportation Cabinet officials assessed the recent growth patterns as well as administrative factors in developing an updated estimate. Based on the latest evaluation, license and privilege taxes are expected to wane during the second half of FY01, due mainly to a high base amount in FY00. The weight distance tax and surcharge are estimated to increase by 3.6 percent, roughly parallel to the robust growth in diesel fuel taxes. Toll income continues to defy logic, as it fell 14.7 percent in the first half of FY01 following a disappointing performance in FY00. Toll income usually grows in concert with the weight distance tax and diesel sales, but FY00 defied conventional wisdom. We had earlier expected growth to increase to 2.0 percent in FY01, but we had to come off these projections due to the disappointing first half of the fiscal year.

**Table 5**  
**General Fund: Interim Forecast**  
(millions of dollars)  
**January 2001**

	FY01			FY01			FY01			FY02		
	Quarters 1 & 2			Quarters 3 & 4			Full Year			Quarter 1		
	Actual	Year Ago	% Chg	Interim Estimate	Year Ago	% Chg	Interim Estimate	Year Ago	% Chg	Interim Estimate	Year Ago	% Chg
Sales & Use	1,125.4		3.3	1,126.0		4.1	2,251.4		3.7	595.3		6.8
Individual Income	1,323.9		4.2	1,490.7		4.1	2,814.6		4.2	691.2		1.5
Corporation Income	145.1		-3.5	179.6		15.1	324.7		6.0	66.5		-23.7
Coal Severance	68.9		-6.9	68.4		-3.9	137.3		-5.4	34.5		-0.7
Property	244.4		1.7	156.7		6.6	401.1		3.6	36.9		-1.7
Lottery	80.0		4.2	74.0		-7.0	154.0		-1.5	39.3		-3.0
Other	239.2		5.7	388.7		1.2	627.9		2.9	134.7		22.8
<b>General Fund</b>	<b>3,226.8</b>		<b>3.2</b>	<b>3,484.2</b>		<b>4.0</b>	<b>6,711.0</b>		<b>3.6</b>	<b>1,598.3</b>		<b>3.2</b>

**Table 6**  
**Road Fund: Interim Forecast**  
(millions of dollars)  
**January 2001**

	FY01			FY01			FY01			FY02		
	Quarters 1 & 2			Quarters 3 & 4			Full Year			First Quarter		
	Actual	% Chg Year Ago		Interim Estimate	% Chg Year Ago		Interim Estimate	% Chg Year Ago		Interim Estimate	% Chg Year Ago	
Motor Fuels	215.9	-1.3		226.4	-2.2		442.3	0.5		115.3	2.7	
Motor Fuels Normal	209.1	-1.0		216.1	1.5		425.1	0.3		111.2	2.9	
Motor Fuels Normal Use Tax	-3.8	23.1		-3.6	-22.6		-7.4	-4.6		-1.8	-13.9	
Motor Fuels Surtax	10.6	-0.1		14.0	4.9		24.6	2.6		5.9	-6.3	
Motor Vehicle Usage & Rental	196.1	-3.8		200.7	-2.3		396.8	-3.1		106.1	1.9	
Motor Vehicle Usage	170.9	-4.8		174.1	-3.2		345.1	-4.0		92.9	0.9	
Motor Vehicle Usage, Rental	25.2	3.6		26.5	3.6		51.7	3.6		13.3	9.8	
License & Privilege (excl. WD)	38.8	-0.1		69.4	-5.5		108.3	-3.6		22.9	13.5	
Weight Distance Tax/Surtax	38.2	3.0		39.4	3.6		77.6	3.3		20.5	5.7	
Toll Income	5.8	-14.7		6.8	1.2		12.6	-6.7		3.2	9.1	
Investment	15.2	29.1		11.9	-32.7		27.1	-8.0		5.1	-20.8	
All Remaining	5.6	23.5		5.3	-9.0		10.9	5.1		2.1	-25.2	
<b>Road Fund</b>	<b>515.7</b>	<b>-1.2</b>		<b>559.9</b>	<b>-1.5</b>		<b>1,075.6</b>	<b>-1.4</b>		<b>275.2</b>	<b>3.1</b>	



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# **APPENDIX**

**KENTUCKY STATE GOVERNMENT REVENUE**  
**1. General Fund Revenue**

	Second Quarter 2000-2001	Second Quarter 1999 - 2000	% Change	% of Total	Year-to Date 2000 - 2001	Year-to Date 1999 - 2000	% Change
<b>TOTAL GENERAL FUND</b>	<b>\$1,678,596,593</b>	<b>\$1,652,396,856</b>	<b>1.6</b>	<b>100.0</b>	<b>\$3,226,820,480</b>	<b>\$3,127,142,907</b>	<b>3.2</b>
<u>Tax Receipts</u>	\$1,607,701,843	\$1,582,961,740	1.6	95.8	\$3,085,455,432	\$2,983,282,604	3.4
<u>Sales and Gross Receipts</u>	\$603,254,514	\$572,469,642	5.4	35.9	\$1,200,330,317	\$1,164,209,508	3.1
Beer Consumption	1,495,734	1,390,181	7.6	0.1	3,275,217	3,157,182	3.7
Beer Wholesale	7,784,568	7,445,283	4.6	0.5	16,775,396	16,321,749	2.8
Cigarette	3,455,114	3,707,015	-6.8	0.2	7,000,822	7,396,713	-5.4
Distilled Spirits Case Sales	21,611	21,058	2.6	0.0	41,787	42,156	-0.9
Distilled Spirits Consumption	2,170,306	2,194,863	-1.1	0.1	4,181,904	4,179,750	0.1
Distilled Spirits Wholesale	3,919,487	3,613,570	8.5	0.2	7,420,075	6,891,642	7.7
Insurance Premium	12,369,700	7,671,498	61.2	0.7	29,240,353	29,957,912	-2.4
Pari-Mutuel	1,792,937	1,885,483	-4.9	0.1	2,936,514	2,870,262	2.3
Race Track Admission	65,690	55,905	17.5	0.0	166,878	167,392	-0.3
Sales and Use	567,999,867	542,317,120	4.7	33.8	1,125,371,747	1,089,379,336	3.3
Wine Consumption	464,646	480,963	-3.4	0.0	870,209	869,957	0.0
Wine Wholesale	1,714,853	1,686,703	1.7	0.1	3,049,415	2,975,457	2.5
<u>License and Privilege</u>	<b>\$73,596,607</b>	<b>\$61,100,061</b>	<b>20.5</b>	<b>4.4</b>	<b>\$128,693,719</b>	<b>\$119,772,687</b>	<b>7.4</b>
Alc. Bev. License Suspension	19,500	21,800	-10.6	0.0	91,150	20,700	340.3
Coal Severance	34,149,801	36,772,609	-7.1	2.0	68,896,510	73,973,212	-6.9
Corporation License	30,351,366	15,592,456	94.7	1.8	43,242,152	30,799,211	40.4
Corporation Organization	57,252	84,206	-32.0	0.0	134,944	192,036	-29.7
Occupational Licenses	43,031	10,299	317.8	0.0	101,122	34,512	193.0
Oil Production	856,965	709,906	20.7	0.1	1,780,422	1,280,879	39.0
Race Track License	102,800	102,800	0.0	0.0	241,300	250,800	-3.8
Bank Franchise Tax	(84,592)	2,193,481	---	0.0	(619,847)	1,838,105	---
Driver License Fees	76,981	74,545	3.3	0.0	162,814	201,310	-19.1
Minerals Severance	4,108,125	3,479,657	18.1	0.2	7,697,790	7,378,440	4.3
Natural Gas Severance	3,915,378	2,058,301	90.2	0.2	6,965,362	3,803,483	83.1
<u>Income</u>	<b>\$700,541,788</b>	<b>\$719,975,890</b>	<b>-2.7</b>	<b>41.7</b>	<b>\$1,468,921,084</b>	<b>\$1,420,502,022</b>	<b>3.4</b>
Corporation	57,936,806	79,944,373	-27.5	3.5	145,065,338	150,339,801	-3.5
Individual	642,604,982	640,031,517	0.4	38.3	1,323,855,746	1,270,162,221	4.2

**KENTUCKY STATE GOVERNMENT REVENUE**  
**1. GENERAL FUND REVENUE**

	<b>Second Quarter 2000 - 2001</b>	<b>Second Quarter 1999 - 2000</b>	<b>% Change</b>	<b>% of Total</b>	<b>Year-to Date 2000-2001</b>	<b>Year-to Date 1999-2000</b>	<b>% Change</b>
<u>Property</u>	\$206,851,476	\$209,103,341	-1.1	12.3	\$244,353,518	\$240,193,336	1.7
Bank Deposits	0	0	—	0.0	0	0	—
Building & Loan Association	13,494	0	—	0.0	172,251	81,697	110.8
Distilled Spirits	0	449,860	-100.0	0.0	0	449,860	-100.0
General - Intangible	16,240,294	17,261,107	-5.9	1.0	16,027,311	17,015,756	-5.8
General - Real	112,714,331	107,756,279	4.6	6.7	112,547,568	108,341,268	3.9
General - Tangible	54,279,956	52,116,335	4.2	3.2	74,396,515	71,566,597	4.0
Marginal Accounts	21,479	0	—	0.0	32,970	13,576	142.8
Omitted & Delinquent	3,740,728	2,117,103	76.7	0.2	10,440,180	9,731,059	7.3
Public Service	19,781,719	29,043,677	-31.9	1.2	30,648,109	32,608,062	-6.0
Other	59,474	358,980	-83.4	0.0	88,614	385,460	-77.0
<u>Inheritance</u>	\$21,005,680	\$16,881,561	24.4	1.3	\$38,346,704	\$32,942,770	16.4
<u>Miscellaneous</u>	\$2,451,778	\$3,431,245	-28.5	0.1	\$4,810,090	\$5,662,280	-15.1
Legal Process	804,474	829,444	-3.0	0.0	1,642,921	1,780,411	-7.7
T. V. A. In Lieu Payments	1,650,766	2,563,906	-35.6	0.1	3,151,087	3,841,475	-18.0
Other	(3,462)	37,895	-109.1	0.0	16,082	40,395	-60.2
<u>Nontax Receipts</u>	\$69,880,436	\$68,403,007	2.2	4.2	\$137,178,306	\$140,778,853	-2.6
Departmental Fees	3,859,302	4,081,156	-5.4	0.2	11,263,765	17,145,854	-34.3
Fines & Forfeitures	10,103,321	11,316,260	-10.7	0.6	20,982,410	23,408,286	-10.4
Interest on Investments	8,925,677	9,903,823	-9.9	0.5	17,402,274	17,512,828	-0.6
Lottery	39,500,000	37,500,000	5.3	2.4	80,030,000	76,800,000	4.2
Miscellaneous	7,492,136	5,601,769	33.7	0.4	7,499,857	5,911,884	26.9
Redeposit of State Funds	\$1,014,314	\$1,032,109	-1.7	0.1	\$4,186,742	\$3,081,450	35.9

**KENTUCKY STATE GOVERNMENT REVENUE**  
**2. ROAD FUND REVENUE**

	Second Quarter 2000 - 2001	Second Quarter 1999 - 2000	% Change	% of Total	Year-to Date 2000 - 2001	Year-to Date 1999 - 2000	% Change
<b>TOTAL ROAD FUND</b>	<b>\$247,683,339</b>	<b>\$243,366,270</b>	<b>1.8</b>	<b>100.0</b>	<b>\$515,987,788</b>	<b>\$524,678,697</b>	<b>-1.7</b>
<u>Tax Receipts-</u>							
<u>State Road Fund</u>	\$231,748,512	\$227,069,437	2.1	93.6	\$486,431,018	\$498,413,804	-2.4
Tax Receipts - County Share	2,784,877	2,521,621	10.4	1.1	5,909,101	5,555,933	6.4
Total Tax Receipts	\$234,533,390	\$229,591,058	2.2	94.7	\$492,340,119	\$503,969,737	-2.3
<u>Sales and Gross Receipts</u>							
Motor Fuels Taxes	\$195,851,584	\$191,086,337	2.5	79.1	\$412,356,592	\$423,230,917	-2.6
Motor Fuels Use & Surtax	100,999,562	94,114,241	7.3	40.8	209,090,204	211,501,703	-1.1
Truck Trip Permits (fuel)	2,676,672	4,536,494	-41.0	1.1	6,858,972	7,582,198	-9.5
Motor Vehicle Usage	113,070	114,804	-1.5	0.0	221,620	210,779	5.1
	92,062,280	92,320,797	-0.3	37.2	196,185,796	203,936,236	-3.8
<u>License and Privilege</u>							
Motor Vehicles	\$38,681,806	\$38,504,722	0.5	15.6	\$79,983,527	\$80,738,820	-0.9
Motor Vehicle Operators	14,899,057	14,767,795	0.9	6.0	33,402,935	35,257,471	-5.3
Weight Distance	1,391,897	1,416,446	-1.7	0.6	2,681,615	2,471,789	8.5
Truck Decal Fees	18,846,711	18,615,680	1.2	7.6	38,226,171	37,125,525	3.0
Other Special Fees	19,287	16,532	16.7	0.0	72,697	66,318	9.6
	3,524,854	3,688,268	-4.4	1.4	5,600,109	5,817,717	-3.7
<u>Nontax Receipts</u>							
Departmental Fees	\$14,956,228	\$16,214,990	-7.8	6.0	\$28,397,807	\$25,959,602	9.4
In Lieu of Traffic Fines	2,778,509	3,075,109	-9.6	1.1	6,165,820	6,267,571	-1.6
Highway Tolls	440,224	352,372	24.9	0.2	908,541	743,662	22.2
Investment Income	2,784,455	3,248,709	-14.3	1.1	5,753,600	6,743,744	-14.7
Miscellaneous	8,759,040	9,412,172	-6.9	3.5	15,199,643	11,777,516	29.1
	194,001	126,628	53.2	0.1	370,203	427,109	-13.3
<u>Inter-Agency Motor Pool</u>	\$0	\$0	---	0.0	\$0	\$0	---
Motor Carrier Taxes - <u>Undistributed</u>	\$0	\$0	---	0.0	\$0	\$0	---
Redeposit of State Funds	\$978,598	\$81,842	1095.7	0.4	\$1,158,962	\$305,290	279.6